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MCC FOR CEO AMB. DANILOVICH AND MBOHN

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SUBJECT: NICARAGUA: AMBASSADOR MEETS WITH PRESIDENT ORTEGA
ON PROGRESS OF MCC PROGRAM

Classified By: Amb. Paul Trivelli for reasons 1.4 b&d.

Summary

¶1. (C) At a January 8 meeting with the Ambassador, Nicaraguan President Daniel Ortega expressed his desire to better understand the Millennium Challenge Account's Nicaragua operations (MCA-N) ahead of the January 22-24 visit of MCC CEO Ambassador John Danilovich. Ortega indicated that MCA is important to his administration and he wanted to make sure that the Danilovich visit was a success; however, his ministers raised alleged slow implementation of MCA projects and lack of GON involvement, in particular in the area of road construction. The Ambassador responded, noting that MCA has succeeded thus far at meeting programmed milestones in general, and particularly for the road construction. MCA-N's acting director provided detailed information on the range of activities in the infrastructure, rural business and property project. The Ambassador raised delays in certain key decisions as a result of the loss of the GON chairman of MCA-N's board. Ortega agreed to appoint an interim chairman from among current GON board members. Ortega expressed his intention to accompany Ambassador Danilovich on site visits to MCA-N projects during his trip. End Summary.

Participants

¶2. (C) On January 8, the Ambassador met with President Ortega, at the latter's request. During the meeting, which took place at the Presidential offices/FSLN Party headquarters, Ortega was accompanied by First Lady/Presidential spokeswoman Rosario Murillo, Foreign Minister Samuel Santos, Finance Minister Alberto Guevara, Transport Minister Pablo Fernando Martinez, Presidential Advisor Paul Oquist, Presidential Advisor Rodolfo Delgado, and Nicaraguan Ambassador to the U.S. Arturo Cruz. The Ambassador was accompanied by DCM and Millennium Challenge Account-Nicaragua (MCA-N) Acting Director Eddy Jerez.

GON Raises Concerns

¶3. (C) Ortega led off, noting that he had wanted to discuss the activities of MCA-N ahead of the &important8 visit of MCC CEO President Ambassador John Danilovich. Ortega said that MCA-N had created high expectations, but he had concerns about the time frame of the implementation of projects and the need for greater involvement by the GON. He then asked Finance Minister Guevara to elaborate. Guevara asserted that

there was little &concrete8 to show from MCA-N, particularly in supporting productive investment in rural areas, and urged that funds be devoted to direct financing of production, rather than merely in commercialization. Then, Transport Minister Martinez intervened noting that the agreement establishing MCA-N had been signed in July of 2005 and that it had a five year execution period that was not subject to modification. He alleged that design process of the roads had gone very slowly, abetted by a bidding process which aggregated road segments into relatively large blocks and did not give Nicaraguan contractors the opportunity to successfully bid because of the large financial requirements.

He also wondered if administrative costs of MCA-N were above the norm and required a close look.

Ambassador Details Progress

¶4. (C) The Ambassador responded by noting first that the MCA-N agreement had been ratified in June of 2006 by the National Assembly and that the five year time period in fact ran from then, not July 2005. He challenged the assertion that little had been done to support productive investment by rural producers, noting that he personally had visited a range of projects in the dairy, forestry and other agricultural sectors. MCA-N projects, he noted, were largely proceeding according to previously agreed time-frames and within programmed budgets. The GON's desire for construction of an additional stretch of road (Chinandega-Guasaule) had been accommodated using funds obtained from administrative savings from previous successful bidding processes. He understood the GON's desire for rapid, visible action. At the same time, it was undeniable that most of Nicaragua's road network was in poor condition precisely because it had been quickly and improperly built. MCA-N was looking to construct roads that would last 20-30 years with normal maintenance.

¶5. (C) The Ambassador asked MCA-N Acting Director Eddy Jerez to brief President Ortega on further details of ongoing activities. Jerez reviewed the road portfolio of both of primary and secondary roads and he explained the dollar amount, estimated kilometers to be built and the current status on feasibility, design and construction bidding process. He discussed bidding procedures on roads and noted a recent case where a deadline had been in fact relaxed to allow a Nicaraguan firm to bid. He reviewed the Rural Business Project and described important investment promotion activities of MCA-N, including the encouragement of an apparel investment which now employed 250 women, and noted the prospects for another which would employee up to 1,500 workers.

¶6. (C) He provided further examples of MCA-N efforts which had allowed milk and bean producers to improve quality and thus get better prices for their output as well as access to export markets. He noted that MCA-N's rural development activities were aimed not at the subsistence farmer but rather at small and medium farmers who could take advantage of injections of capital and technical assistance to make their businesses profitable, for example milk producers with seven cows or more. First Lady Rosario Murillo noted that the GON's own programs were aimed at subsistence farmers and that assisting this somewhat more sophisticated sector was also important. Jerez admitted that there had been some delay on implementing one main component of the Property Project due to changes requested by the GON to the procurement process and indicated that it was in the GON hands to collaborate with MCA-N to bring this component up to speed. (Note: The Ambassador noted that regardless of this delay, some titles in fact have been given out and more will be given out during the Danilovich visit. End Note.)

Reconstituting the Board

17. (C) The Ambassador raised the issue of delays in certain decisions which only the MCA-N board could take. GON members hold their board seats by virtue of the holding certain government positions referred to in the MCA-N agreement. With the abolition of the Technical Secretariat of the Presidency, former board member Rodolfo Delgado (still a Presidential Advisor and present at the meeting) no longer held his position and the board could not be convened. As a result, the board had not met since October. Among pending decisions was the signing of the Modification Letter by the GON chairman approving the decision to build the Chinandega-Guasaule road section sought by the GON. The Ambassador urged Ortega to name temporarily as board President a current GON board member, which could be done rapidly through an exchange of letters, leaving the naming of a permanent member until later if required. Ortega readily agreed, and said that Finance Minister Guevara, as current voting GON member would be the interim chairman of the board, and that he intended to upgrade Transport Minister to a voting position on the board.

Looking Forward

18. (C) Ortega concluded discussion of these issues by noting that there is pressure for visible signs of progress from local mayors, particularly on roads, and a need for a coherent position between the GON and MCC. He urged that mechanisms be considered for rapid execution of short road sections in sensitive zones which are particularly vulnerable to damage from flooding, etc. The Ambassador responded that these were issues which the board could now take up since it could again meet. He then briefly reviewed plans for Amb. Danilovich's visit. Ortega said he looked forward to a successful visit, and that he wanted to join in Amb. Danilovich's visit to MCA-N projects. He asked that the Embassy coordinate with the First Lady in organizing his participation in the visit.

Comment

19. (C) Despite his ministers carping about alleged deficiencies in MCA-N's operations, Ortega maintained a positive tone throughout the meeting, and received information about the real state of affairs with interest. He followed up with a letter formally naming an interim board president, as promised, and we have been working with the Presidency about Ortega's participation in Amb. Danilovich's visit. Despite tensions in our overall bilateral relationship, the Millennium Challenge Account's Nicaraguan activities remain a stellar example of U.S. engagement here working to the benefit of the Nicaraguan people, something which, in the final analysis, the GON understands.
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